

# Strengthening Operating Foundations

As one of the values defined in its mission statement, the Tsubaki Group declares that “We will contribute to overall social and economic development by manufacturing products that satisfy customers.” This value serves as the foundation of our business and social contribution activities, and we take this value to heart as we communicate with our various stakeholders with the aim of living up to their expectations and trust.

This value has been passed down through Tsubakimoto Chain’s operations since the Company was founded in 1917. Today, it continues to drive us forward on our quest to create value by strengthening manufacturing capabilities and human resources management as well as through social contribution activities and environmental preservation.

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# Manufacturing Capabilities

## Tsubaki's first quality creation driver: Manufacturing capabilities that can meet customers' needs for quality

Tsubaki provides products that exceed customers' expectations with regard to quality, prices, delivery periods, and eco-friendliness. We are able to accomplish this by leveraging the development capabilities that underpin our technological prowess and intellectual property strategies, the production technology capabilities used to supply products that meet customers' needs with high quality through global production systems, and Tsubaki's unique manufacturing capabilities that are born out of these strengths.

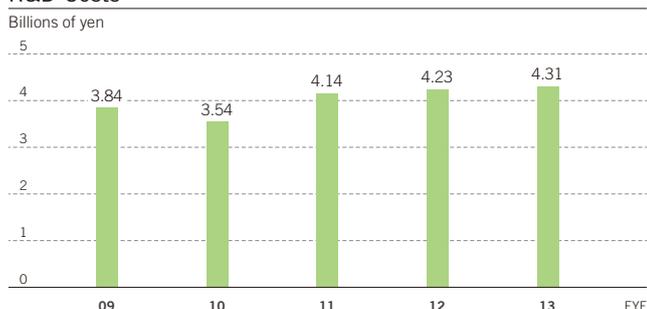
### Basic Policies and Improvement Measures

The Tsubaki Group is working to strengthen its manufacturing capabilities in pursuit of medium- to long-term improvements in corporate value.

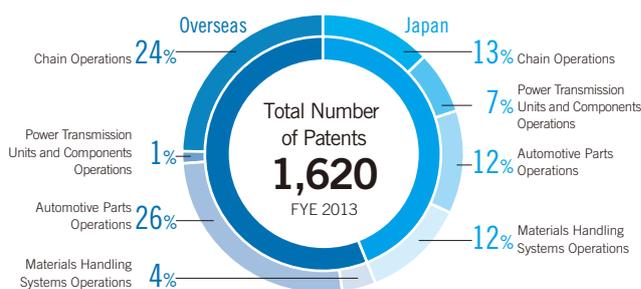
One element of our manufacturing capabilities lies in our development capabilities. We aim to enhance these capabilities through initiatives that link R&D, business, and intellectual property strategies to differentiate our products. Another

element is our production technology capabilities, which we are working to reinforce through *dantotsu* activities and other quality and production improvement activities conducted with the goal of reducing defects to zero. Further, the benefits of such reforms will be spread to Group companies in Japan and overseas to strengthen Tsubaki's manufacturing capabilities on a global scale.

#### R&D Costs



#### Distribution of Patents Held by the Tsubaki Group



### Enhancing Development Capabilities

#### R&D and Intellectual Properties that Support Technical Prowess

Today, the Tsubaki Group boasts a unique technical prowess that gives it an advantage on the global market. This prowess has been developed by evolving the technologies used in the drive and conveyance functions of Tsubaki's chains, its mainstay products since its founding—to create power transmission and materials handling technologies.

Approximately 360 employees, roughly 5% of the Group's total staff, have been assigned to the Development & Technology Center, responsible for R&D, or to the technology and production technology divisions of specific businesses. In addition, we

collaborate with external organizations, including Yokohama National University, Osaka Prefecture University, and Keio University, to advance the development of cutting-edge technologies. Further, in the fiscal year ended March 31, 2013, we incurred total R&D costs of ¥4,319 million, of which ¥783 million was devoted to Chain Operations, ¥322 million to Power Transmission Units and Components Operations, ¥2,374 million to Automotive Parts Operations, and ¥839 million to Materials Handling Systems Operations.

For new and other important products, we are working to

develop a patent map consisting of basic patents, applied patents, and process patents, and are taking steps to comprehensively protect and strengthen our intellectual property portfolio.

As a result, the number of patents held by the Group in Japan and overseas grows with each coming year.

## Reinforcing Production Technology Capabilities

### Manufacturing Reform Initiatives in Automotive Parts Operations

In Automotive Parts Operations, we are conducting *dantotsu* activities—Tsubaki’s unique brand of improvement activities—to improve quality and productivity at all production bases. In the fiscal year ended March 31, 2013, we implemented such activities at over 200 production lines while also holding educational drills and providing forums for the sharing of techniques.

We first began conducting *dantotsu* activities in 2008, when, under the guidance of Toyota Motor Corporation, we constructed a model line in our Saitama Plant. Since then, these activities have been continued with the aim of reducing quality defects and forced line halts to zero. Moreover, we are working to spread the benefits of these activities to all Tsubaki Group manufacturing companies worldwide, and are also sharing such reforms with business partners (suppliers).

In February 2013, we completed construction of a new assembly factory building at our Saitama Plant to house assembly lines, which saw the start of mass production operations in April of this year. In addition, we implemented a number of manufacturing reform initiatives known as the “5E Reforms,” as they targeted improvements based on the themes of efficiency, economy, ecology, emotion, and evolution. Through such efforts, we aim to install a level of functionality that will allow this factory to serve as a model for manufacturing operations worldwide.



New assembly factory building at Saitama Plant

### Sharing of Technologies in Chain Operations

For our Chain Operations, we have constructed global manufacturing systems with bases in Japan, the United States, Taiwan, and China. To further the development of these systems, we work to share Tsubaki’s stance toward manufacturing and quality throughout all the regions in which we operate.

The Kyotonabe Plant in Japan serves as our flagship factory for industrial chains, and is actively engaged in exchanges with Group factories overseas as it works to share technologies, technical skills, and expertise. As one facet of these activities, in the fiscal year ended March 31, 2013, team leaders from the new factory in Tianjin, China, were invited to the Kyotonabe

Plant to receive hands-on manufacturing instruction and participate in quality and safety training.



Employee from factory in Tianjin, China (right), receiving manufacturing instruction at the Kyotonabe Plant

### Manufacturing Foundation Strengthening Initiatives Conducted Under Medium-Term Management Plan 2012

Business	Initiatives	Results	
Chain	Construction of revolutionary production lines	Aim: Reduce cost of chain for specific applications Effect: Improved productivity through technological innovation and increased speed, achieved synchronization and in-line operations, and reduced labor requirements	
Power Transmission Units and Components	Intensive production of hypoid motor (reducers) in China	Aim: Reduce costs through intensive production in China and enhance competitiveness in Japan and China Effect: Achieved sales growth in China	
Automotive Parts	<i>Dantotsu</i> improvement activities and manufacturing reform initiatives	Aim: Improve productivity in seven regions worldwide, reduce costs, and improve productivity by 30% for the new assembly factory building in the Saitama Plant and 15% for the entire Saitama Plant Effect: Currently promoting cost reductions of 30–50% through product specification changes at customer request	
Materials Handling Systems	Introduction of modular design	Aim: Improve design productivity (item processing efficiency) Effect: Realized 60% reduction in quantity of blueprints for Linisort (sorting systems) and 50% reduction in indirect worker-hours through reduction in drawings	

# Human Resources Management

## Tsubaki's second quality creation driver: Capable human resources supporting global operations

In addition to Tsubaki's manufacturing capabilities, another management resource critical to providing high-value-added products is our human resources. It is impossible for a company to grow if its employees do not. Based on this belief, we are actively cultivating young technicians and developing human resources capable of competing on the global stage. At the same time, the Company is developing fair evaluation standards to enable employees to feel motivated and empowered in their work.

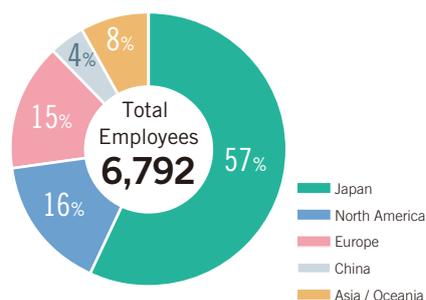
### Basic Policies and Improvement Measures

Due to proactive globalization efforts, we are seeing yearly increases in the ratio of consolidated net sales generated overseas and are also coming to conduct a greater volume of production outside of Japan. In addition, over 40% of the Tsubaki Group's staff is now employed by overseas subsidiaries. Accordingly, it is ever more important for employees to be able to respond to globalization trends, regardless of position or rank.

Going forward, it is vital that we pass on our "manufacturing genes" to employees that will help Tsubaki create value in the future, while also giving rise to global innovations that are not limited within the current scope of operations. In recognition of this necessity, we are actively providing employees with various opportunities to study and improve their skills, and are committed to providing a comfortable workplace environment. In these manners, we aim to ensure that all employees are highly motivated.

Distribution of Employees By Region

(As of March 31, 2013)



### Fostering Human Resources

#### Grounds for Training Young Technicians—Tsubaki Techno School

With the aim of enabling all employees to improve their expertise and skills, Tsubaki conducts training programs and offers other skill development opportunities for employees based on their position and rank. One way it provides these opportunities is through the Tsubaki Techno School, a training ground for young technicians where they can learn foundation technologies and other specialized technical skills that are directly applicable to their work.

The school has developed a robust curriculum including courses ranging from those for beginners, which teach foundation and processing technologies, to intermediate courses,

where engineers learn material, control, and information engineering, and technical courses developed to improve monitoring capabilities and transmit technical expertise. These courses are taught by managers standing at the front lines of operations or by retired Tsubaki employees, who use anecdotes in teaching the Company's unique lecture programs.

Since the Tsubaki Techno School was founded in April 1998, approximately 6,400 employees have completed half-year courses at the school, consisting of 48 hours of classes, through which they acquired skills that are now being put into practice in daily operations.

#### First Annual Tsubaki Technical Skills Olympics

In October 2012, we held the first annual Tsubaki Technical Skills Olympics at the Kyotanabe Plant and two other sites. This competition consisted of seven events that tested employees' skills in basic areas common among all the Group's businesses.

A total of 51 elite employees from Group companies throughout Japan assembled for the fierce competition, which took place over a three-day stretch.

We expect that holding such events will lead to improved

employee motivation while also helping strengthen manufacturing foundations through inter-division exchanges. As such, we have decided to hold the Tsubaki Technical Skills Olympics

annually, and will work to develop it into a global event in the future so that employees from overseas subsidiaries may also participate (see page 15 for details).

## Cultivation of Human Resources that Can Compete on the Global Stage

Aiming to cultivate human resources that can compete on the global stage, we provide employees with a wide range of educational opportunities from the moment they enter the Company, including those that teach languages or business manners or help them to better understand other cultures. Another such program is the overseas trainee system, which allows young employees to be dispatched to overseas subsidiaries for one

year of training. In the fiscal year ended March 31, 2013, a total of 15 employees took advantage of this program, and six employees utilized the program in the previous year.



Employee dispatched to British subsidiary through the overseas trainee system

## Rank-Based Training

The Company provides various training programs for employees based on their position and rank within the organization.

For employees with less than three years' experience at the Company	For general employees	For managers (division and section managers)
<ul style="list-style-type: none"> <li>Comprehensive quality control training (Graph, data management, and analytical skills)</li> <li>Teamwork training</li> <li>New-employee training by business division (hands-on instruction at factories, etc.)</li> <li>Group training for new employees</li> </ul>	<ul style="list-style-type: none"> <li>Training prior to promotion to managerial position</li> <li>Leadership training</li> <li>Logical thinking training</li> <li>Inquisitive analysis training</li> </ul>	<ul style="list-style-type: none"> <li>Manager training</li> <li>External dispatch training</li> <li>SAT training (Basic skills necessary for managers)</li> </ul>

## Enhancing Workplace Environment

### Safe and Comfortable Workplace Environment

At the Tsubaki Group, we realize that safety is our highest priority as a manufacturing company, and we are therefore working to prevent occupational accidents and help employees remain healthy. As one facet of these efforts, in February 2009 we established the Tsubaki Group Safety Committee, which guides us as we implement initiatives centered on risk assessment activities and occupational safety and health education activities.

In addition, during the fiscal year ended March 31, 2013, we began conducting checks by senior management in which top-ranking managers personally evaluate past accident sites and the prevention measures in place at these sites. We have also defined the goal of making safety confirmation through a defined set of hand gestures and calls a shared Group practice with the

aim of encouraging all employees to be aware of and to make a habit of safety confirmation. Initiatives toward entrenching this practice are currently under way.

Number of Work-Related Accidents at Domestic Tsubaki Group Sites



### Promotion of Work-Life Balance

In Japan, Tsubakimoto Chain is proactively developing an environment that is conducive to employees hoping to work while raising children or nursing family members. To this end, we have introduced flextime and discretionary labor systems. In addition, we encourage employees to take consecutive days off, which has resulted in a rise in leave acquisition, and are striving to shorten work hours. We are also working to cultivate a workplace atmosphere that is understanding toward employees taking childcare or nursing leave, and have instituted a plethora of measures to help employees work stably at the Company. For

example, we allow employees to take leave for periods that exceed the legally-mandated minimum and have introduced systems under which paid leave days that have expired are accumulated and made usable for special purposes, such as nursing family members.

#### More information available online

For information regarding the Company's human resource evaluation systems, employment of people with disabilities, and other matters, please refer to the environmental and social contribution activities section of Tsubakimoto Chain's website (Japanese only).

# Social Contribution

## Tsubaki's third quality creation driver: Coexistence with local communities

In its quest to create value, the Tsubaki Group is supported by its various stakeholders. This support comes in such forms as the land on which factories are built and the people who staff these facilities, all of which are provided by local societies. To repay society for these gifts, we work to create employment opportunities and economic benefits, and also conduct environmental preservation and social contribution activities. We believe this is a win-win relationship born out of our modest, ongoing efforts to build bonds of trust with society.

### Basic Policies and Improvement Measures

In our mission statement, one of the values declares that "We will contribute to the development of local societies as a good corporate citizen." Such contribution does not just mean complying with the laws and social rules of each region and country we operate in, it also includes actively working to build

trust-based relationships with society. These efforts involve a diverse range of activities. For example, we make our factories open toward the community and provide support for children that will shape the future. In addition, overseas Group companies place emphasis on charity and volunteer activities.

### Making Factories Open Toward the Community

#### Hands-On Manufacturing Tours at the Kyotanabe Plant

Since the 2001 relocation of the Kyotanabe Plant, located in Kyoto Prefecture, we have strived to operate the factory in a manner that is open toward the community, and have worked to build positive relationships with related municipal governments and members of the community. In particular, working together with Kyotanabe City, we began holding factory tours for children and their parents during summer vacation in 2008. These tours serve as a valuable opportunity for us to communicate to society the type of company that Tsubaki is.

This unique tour program was developed out of the plant's commitment toward supporting the education of the children that will shape the future of society, a goal that we aim to accomplish by showing them the joy of manufacturing. In August 2012, the program was held for the fifth time. The number of local elementary school children and parents welcomed to the plant reached 80 over the two-day period, while the

number of applications received was much more, a testament to the event's popularity.

The Kyotanabe Plant also loans employees to teach special classes at local high schools, participates in various city events, has employees that are active in local committees, and is otherwise working to maintain a close relationship with the community.



Conveyor chain explanation using fun and easy-to-understand picture cards

#### Work-Experience Program at Hyogo Plant

Since 2001, the Hyogo Plant has held a work-experience program known as "Try-Do Week," through which local junior high school students are granted the opportunity to experience work at our factory for one week. In the fiscal year ended

March 31, 2013, two children participated and experienced factory work tasks such as processing, assembly, and production management.

## Support for Fire Prevention Initiatives

The Tsubaki Group has supported fire prevention initiatives on an ongoing basis. In the fiscal year ended March 31, 2013, the Kyoto Plant, located in Nagaokakyo City, Kyoto Prefecture, opened its grounds to be used for firefighting drills held by the Kyoto Prefectural Firefighting Association for two cities and one

town. Also, a team from the Kyotonabe Plant participated in a drill competition for firefighting brigades in Kyotonabe City. Meanwhile, the Hyogo Plant's team won a tournament that tested practical firefighting techniques held in Kasai City for its second year in a row.

## Social Contribution Overseas

### ● Participation in Charity Events for Fighting Cancer in the United States and the United Kingdom

Since 2002, a team of volunteer employees at U.S. Tsubaki Automotive, LLC, known as the "Chain Gang" has been participating in the Relay for Life event held by the American Cancer Society. This event is held at 5,000 locations throughout the United States as well as in 20 countries worldwide, with the aim of collecting donations to support cancer victims and their families and fund research. In addition, the Chain Gang collects donations throughout the year via self-planned events as it works to form a chain "linking" all of society together in the fight against cancer.



Chain Gang team of employee volunteers in the United States

At Tsubakimoto U.K. Ltd., almost all employees participate in Wear it Pink Day, an event held with the aim of collecting donations to fund breast cancer research, and Wrong Trousers Day, which was designed to support hospital-bound youngsters. These events entail collecting donations in humorous guises, such as pink outfits or mismatched top and bottom combinations, thereby bringing a British sense of humor into the donation drives and allowing participants to contribute to society while having a good time.



Uniquely British Wear it Pink Day charity event

### ● Environmental Preservation and Social Contribution in Thailand

Tsubakimoto Automotive (Thailand) Co., Ltd., believes environmental preservation and social contribution activities are of the utmost importance, and is participating in a mangrove reforestation project as part of these efforts. Mangrove forests play an important role in developing rich, healthy ecosystems and protecting biodiversity, and also absorb large quantities of CO<sub>2</sub>. However, in recent years, industrial development has resulted in a deforestation trend that is driving these trees to the brink of extinction. In the fiscal year ended March 31, 2013, 45 employees from this subsidiary participated in the program, planting 2,040 mangrove trees. Moreover, employees have planted approximately 7,200 trees since the subsidiary began participating in this project during 2007, helping realize reductions in CO<sub>2</sub> emitted into the atmosphere to the extent of 72 tons per year.

In addition, employees at Tsubakimoto Automotive

(Thailand) plan and conduct a variety of volunteer activities. For example, employees collected and returned bottles as well as plastic and glass, and used the proceeds to purchase a 2,000 liter water tank, which was donated to an elementary school in an underpopulated area.



Mangrove reforestation project in Thailand

# Environmental Preservation

## Tsubaki's fourth quality creation driver: Integrated environmental management

Manufacturing processes require us to consume significant amounts of natural resources and energy. At the same time, preserving the global environment is recognized as an issue to be faced by all of humanity. In light of this recognition, the Tsubaki Group is working to minimize its environmental footprint by managing energy usage, while also developing eco-products to accelerate the contributions of its business to society.

### Basic Policies and Improvement Measures

#### Environmental Philosophy

The Tsubaki Group believes that environmental conservation is a critical challenge facing humanity. **We will remain mindful of the environment in all our operations and contribute to it through our workmanship.**

#### Fundamental Environmental Policy

- We will acknowledge the environmental impact of our operations, products, and services. In the interests of environmental conservation, we will use our creativity to exhibit industry leadership in reducing our environmental load.
- We will create a management system for environmental conservation and will promote pollution control and continual improvement.
- We will strictly comply with environmental laws, rules, and regulations and will seek to develop good relationships with our stakeholders.
- Through environmental training and in-house public relations, we will work to enhance awareness of environmental conservation among all Tsubaki Group employees.

**Long-Term Objectives:** Reduce CO<sub>2</sub> emissions by 15% by FYE 2021 \* Benchmark year: FYE 2006

In accordance with its environmental philosophy and fundamental environmental policy, the Tsubaki Group has defined long-term environmental preservation objectives and developed an integrated environmental management system centered on the Environmental Management Committee. This committee constructs environmental objectives for each fiscal year, and periodically

monitors progress toward accomplishing these objectives.

We have also coined the term Eco & Eco (ecology and economy) to emphasize our focus on developing new products that boast both ecological and economic benefits (see page 10 for details). In this way, we aim to create new value unique to the Tsubaki Group.

### FYE 2013 Environmental Objectives, Results, and Evaluation

Item	FYE 2013 environmental objectives	FYE 2013 results	Evaluation
Expansion of sales of eco-products	Entrench the concept of Eco & Eco*1	Developed systems for monitoring quantitative CO <sub>2</sub> reduction data for eco-product usage	○
Reduction of CO <sub>2</sub> emissions	1. Achieve 1% year-on-year reduction in total emissions 2. Achieve 3% year-on-year reduction in emissions intensity	1. Met goal by reducing total emissions by 4% 2. Failed to meet goal by reducing intensity by only 0.7%	△
Reduction of industrial waste, etc.	Achieve recycling rate*2 of 98% or higher (full-year average)	Maintained annual average recycling rate of over 98%	○
Reduction in use of chemical substances	Reduce use of chemical substances in manufacturing processes	Decreased emissions into atmosphere by 9.9%, decreased transfers by 8.5%	○
Progress in green procurement	Utilize green procurement guidelines	Reduced procurement of harmful chemical substances and compiled related database	○
Globalization of environmental management	Develop common objectives for overseas companies	Formulated objectives for CO <sub>2</sub> emissions, and advanced initiatives Began collecting water usage data	○
Protection of water resources	Commence water conservation activities at certain bases	Introduced waterless toilets, and collected rain water to use for the watering of plants	○

\*1 Eco & Eco: Ecology and Economy

\*2 Recycling rate: The ratio of the total weight of reused, material-recycled, and thermal-recycled waste to the total amount of waste

## Achieving CO<sub>2</sub> Reductions Over Twice as Large as in Previous Years

In manufacturing the Tsubaki Group's mainstay chains, heat treatment plays an important role in ensuring the durability of finished products, and a large portion of our total energy usage is devoted to this process. Accordingly, we are taking steps to reduce the amount of energy used for this process. For example, at our Saitama Plant, we attached insulating covers to heat treatment furnaces as part of our efforts to improve the efficiency of heat treatment processes and subsequently the overall energy efficiency of the plant. Further, we are working to lower electricity usage by applying heat-insulating paint to factories and installing solar panels.

In addition to the abovementioned initiatives, other activities conducted during the fiscal year ended March 31, 2013, included switching to air pressure devices that use invertors and installing LED lighting. We also instituted electricity conservation measures during the summer and winter, such as reducing and

turning off lighting and managing air conditioning. These measures proved highly successful, enabling us to achieve full-year reductions in CO<sub>2</sub> emissions that were over twice as large as those accomplished in previous years.



Insulating cover attached to a large-scale retort furnace

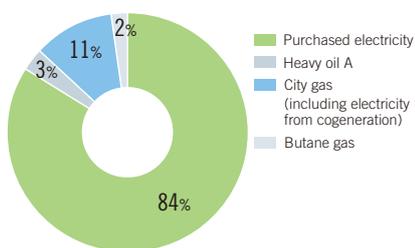
## Promoting Waste Recycling

The Tsubaki Group promotes the recycling of substances that had previously been considered waste. For example, blanking chain plates results in the production of iron scraps, which often become covered in oil and end up requiring painstaking processing before disposal. At Tsubaki, we process these scraps with equipment that strips the oil from them, and then treat this oil with filtration equipment so that it may be reused in other processes, thereby promoting recycling.

Further, we sort waste, remove water from hydrous sludge to lower the weight of waste, and recycle packaging materials, and are implementing other measures to reduce and recycle waste.

In the fiscal year ended March 31, 2013, the Company's waste output, including industrial waste and non-industrial waste, was 5,171 tons, a decrease of 8.9% year on year. The average annual recycling rate was 98%, relatively unchanged from the previous fiscal year.

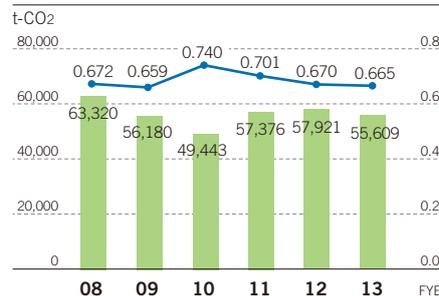
### Breakdown of Energy Usage



Total energy usage  
1,364,853GJ\*

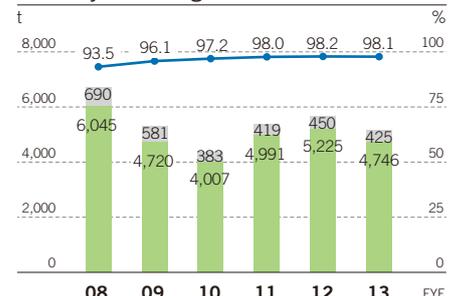
\* Gigajoule (GJ): Unit of energy equivalent to one billion (10<sup>9</sup>) joules

### CO<sub>2</sub> Emissions



CO<sub>2</sub> emissions (left)  
Emissions intensity

### Waste Emissions / Recycling Rate (Fiscal year average)



Industrial waste (left)  
Non-industrial waste (left)  
Recycling rate

**4%**

Year-on-year reduction in CO<sub>2</sub> emissions

**98.1%**

Of total waste recycled

[More information available online](#)

For information regarding the Company's climate change prevention measures, chemical substance management initiatives, and other matters, please refer to the environmental and social contribution activities section of Tsubakimoto Chain's website (Japanese only).



# Corporate Governance

## Tsubaki's fifth quality creation driver: Effective corporate governance as the foundation for business activities

As one of the values defined in its mission statement, the Tsubaki Group declares that "We will contribute to overall social and economic development by manufacturing products that satisfy customers." This value casts light on our devotion to contributing to society through our business activities. We recognize that effective corporate governance must form the foundation based on which we strive to accomplish this goal. For this reason, we position strengthening corporate governance as one of management's most important duties.

### Corporate Governance Systems

At the Tsubaki Group, managerial decisions are conducted by the Board of Directors, which consists of directors elected at the General Meeting of Shareholders. For operational execution, we employ an executive officer system. This system helps strengthen monitoring functions for decisions made by the Board of Directors and for operational execution, thereby improving managerial efficiency. In addition, the Strategy Committee has been established to deliberate on matters of particular importance to management, further reinforcing systems to guarantee proper operational execution. Also, corporate auditors attend Board of Directors' meetings and other important meetings to maintain an understanding of and to monitor managerial practices, and to ensure the appropriateness and soundness of management.

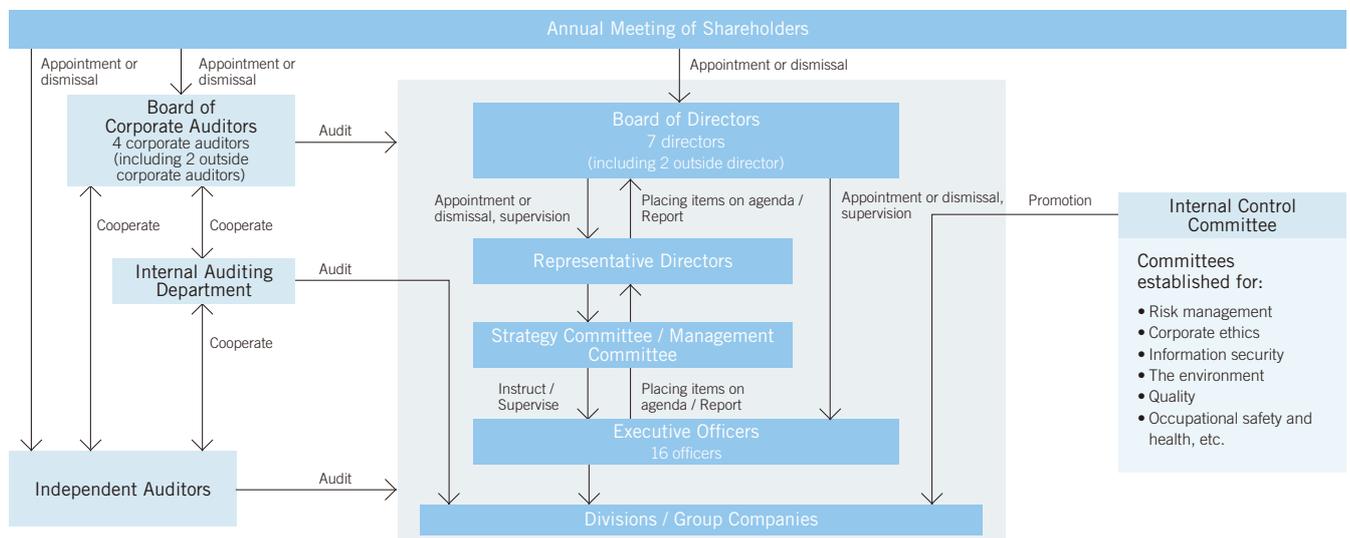
### Overview of Tsubaki's Corporate Governance Systems

(Figures for the fiscal year ended March 31, 2013)

Organization system	Company with Auditors
Chairman of the Board of Directors	President
Number of directors	7 (of which 2 are outside directors)
Number of corporate auditors	4 (of which 2 are outside corporate auditors)
Independent officers	2 outside directors and 2 outside corporate auditors
Meetings of the Board of Directors	16
Meetings of the Board of Corporate Auditors	19
Total compensation paid to directors	¥259 million paid to 7 directors (decided by the Board of Directors)
Total compensation paid to corporate auditors	¥65 million paid to 5 corporate auditors* (decided by the Board of Corporate Auditors)

\* Includes compensation paid to one corporate auditor that resigned from their position following the completion of their term in conjunction with conclusion of the 103rd General Meeting of Shareholders held on June 28, 2012

### Corporate Governance System



## Outside Directors and Corporate Auditors

The Company seeks to improve the transparency and objectivity of management and strengthen managerial supervision and monitoring functions. To this end, we employ two outside directors and two outside corporate auditors. The outside directors do not have any particular relationships with the Company that might cause a conflict of interest. Both of the Company's

outside corporate auditors possess a high degree of specialized expertise based on their experience as attorneys and certified public accountants. In addition, all outside directors and outside corporate auditors are independent officers as stipulated by the Tokyo Stock Exchange.

### Message from an Outside Director

The Tsubaki Group is currently accelerating the implementation of global strategies. For example, the Group's Automotive Parts Operations has a production system encompassing seven regions across the globe. At the same time, the Group is also expanding its other businesses overseas, rooting them in each region and considering regional characteristics.

These efforts are supported by Tsubaki's superior manufacturing capabilities. Each of Tsubaki's businesses operates in a highly specialized field in which the Company has a unique position. As such, Tsubaki's business is resilient to the pressures placed on profitability by competition. In regard to management

### Striving to Make the Tsubaki Group Even More Appealing

systems, the Company makes decisions flexibly and quickly on a daily basis while remaining informed by detailed market analyses. This is a source of the Tsubaki Group's competitiveness.

I have been involved in businesses in various regions around the world in the past, and have held positions as an outside director at two companies other than Tsubakimoto Chain. Based on this experience, I offer advice on matters that I feel the Tsubaki Group should consider when pursuing globalization. At the same time, I offer opinions from an outside perspective with the aim of guiding the Group in becoming even more appealing to its shareholders.



Hidetoshi Yajima  
Outside Director

## Internal Control System

The Tsubaki Group has formulated basic policies on internal control and internal control regulations. It has also established the Internal Control Committee, which, under the guidance of the president and representative director, is responsible for advancing ongoing internal control initiatives that are inclusive of the entire organization and participated in by all employees. The Group's internal control initiatives are based on three pillars:

(1) initiatives stipulated by the Companies Act, (2) initiatives described in the Financial Instruments and Exchange Act, and (3) initiatives conducted by the Group on a voluntary basis. Through these initiatives, we promote legal compliance, corporate ethics, risk management, and reliable disclosure in financial statements and other releases. In addition, such activities are used to improve operational efficiency.

## Tsubaki's Corporate Work Ethics

To serve as a clear code of conduct, we have formulated the Corporate Work Ethics, which are a clearly defined set of ethical guidelines and code of conduct. These standards are to be followed by all directors, executive officers, and employees, and we are working to raise the awareness of corporate ethics throughout the Group through training and other initiatives. The progress of these initiatives is periodically reported to the Board of Directors. Should a violation of the Corporate Work Ethics be discovered, the Ethics Committee will develop and implement the necessary measures to prevent the reoccurrence of violations.

This committee also administers penalties as appropriate, and is thus helping strengthen compliance systems. Further, we have established the Corporate Ethics Hotline to serve as a common venue for domestic Tsubaki Group employees to report any violations of the Corporate Work Ethics they may witness. This hotline can be used to receive consultation from or report issues to either an internal consultant or an outside lawyer\*.

\* The Corporate Ethics Hotline consists of separate venues for internal and external consultation and reporting.

## Risk Management

In accordance with its Risk Management Basic Strategy, the Tsubaki Group has established committees in relation to matters such as risk management, corporate ethics, information security, the environment, quality, and occupational safety and health. These committees operate under the Internal Control

Committee. With this system in place, we are continually identifying and evaluating risk factors, and are working to spread Groupwide awareness to prevent the actualization of risks and thereby reduce the potential damage of risks to the greatest degree possible.

## Communication with Shareholders and Investors

We realize that, in order for the Tsubaki Group to continue growing, it is absolutely essential that we build strong bonds of trust with our shareholders, investors, and other stakeholders, and that this must be done by practicing accountability.

In this pursuit, we actively conduct investor relations (IR) activities. Presentations for institutional investors and securities analysts are held twice a year following interim and full-year earnings announcements, and the materials used in these presentations are uploaded to the Company's website. In addition, financial statements, press releases, and other materials that contain information crucial to making investment decisions are disclosed on the Company's website in a timely and fair manner. Previously, such materials had been made available in both English and Japanese. Starting in the fiscal year ended March 31, 2010, however, we began providing such information in Chinese also. In this manner, we are working to bolster the content of information disclosed.

In addition, we mail convocation notices for the General Meeting of Shareholders three weeks before it is held, in principle. We also choose the site for the meeting in consideration of shareholders' needs to ensure maximum convenience. At

these meetings, information is not merely transmitted from the Company in a one-sided manner. Rather, we regard these meetings as an opportunity to practice reciprocal communication. Accordingly, we hold shareholders' panel discussions after the conclusion of meetings so that opinions may be exchanged between Company officers and shareholders. Moreover, we set up a display that introduces the Group's products at the meeting site and take other steps to foster an enhanced understanding of the Company's manufacturing endeavors.



Shareholders' panel discussions at the General Meeting of Shareholders

## Fundamental Disclosure Policy

One of the values defined in the Tsubaki Group's mission statement is "We will gain the trust and meet the expectations of society through compliance with laws and corporate ethics and through active information disclosure." Acting in accordance

with this value, we aim to provide our shareholders, investors, and other stakeholders with timely, impartial, accurate, and continuous disclosure of information.

### Business Risks

The Tsubaki Group has identified the following risks pertaining to its business operations as having the potential to significantly impact the decisions of investors.

Risks of Changes in the Operating Environment	Were a significant decline in demand to occur, particularly in the automobile industry, which represents the Group's largest customer, due to deterioration in economic conditions, the Group's business results could be materially impacted.
Risk of Increases in the Price of Steel and Other Raw Materials	Were the price of steel or other raw materials to increase rapidly, resulting in higher procurement costs and reduced profitability for the Group, the Group's business results could be materially impacted.
Risk of Natural Disasters	Were an earthquake, fire, or other major disaster to occur at an important production base, it could disrupt the Group's ability to provide a stable supply of its products and subsequently the Group's business results could be materially impacted.
Risks Related to Overseas Business Expansion	Were political or economic issues in a region in which the Group operates to cause temporary economic disruption or recession in that region, the Group's ability to procure parts or operate factories could be impacted, which in turn could reduce or delay the production of the Group's products and could potentially materially impact the Group's business results.
Risk of Fluctuations in Foreign Exchange Rates	Should foreign exchange rates fluctuate drastically to an extent that exceeds all possible expectations, the Group's business results could be materially impacted.
Risk of Violation of Intellectual Property Rights	Should a third-party entity violate the Group's intellectual property rights through unauthorized use or other means, or should lawsuits be brought against the Group by a third-party entity regarding the violation of intellectual property rights, the Group's business results and financial position could be materially impacted.
Risk of Product Defects	In the event that the Group's product liability insurance is not sufficient to cover compensation expenses or other expenses resulting from accidents caused by defective products, recalls, complaints, or other occurrences, the Group's business results and financial position could be materially impacted.

# Board of Directors, Corporate Auditors, and Executive Officers

As of June 27, 2013



## Isamu Osa ①

President and Representative Director  
Responsible for China Operations

## Toru Fujiwara ②

Director and Senior Managing  
Executive Officer  
Global Automotive Parts Business /  
Automotive Parts Division /  
Saitama Plant

## Tadasu Suzuki ③

Director and Managing  
Executive Officer  
Chain Manufacturing Division /  
Global Optimized Chain  
Production / Kyotanabe Plant

## Tetsuya Yamamoto ④

Director and Managing  
Executive Officer  
Management Planning / Power  
Transmission Units and Components  
Operations / President, U.S. Tsubaki  
Holdings, Inc.

## Hideaki Haruna ⑤

Director and Managing  
Executive Officer  
Materials Handling Division /  
Kyoto Plant / Nagoya Office

## Hidetoshi Yajima ⑥

Outside Director

## Shuji Abe ⑦

Outside Director



### Corporate Auditors (Standing)

Masahiro Takemura Kikuo Tomita

### Corporate Auditors (Outside)

Masaru Tokuda Takafumi Watanabe

### Senior Managing Executive Officers

Toshio Takahashi Masato Kondo

### Managing Executive Officer

Jiro Miyamoto

### Senior Executive Officers

Masaya Ushida Toshimitsu Sakai

### Executive Officers

Nobuaki Haga Hiromasa Kawaguchi Masahiko Yamamoto  
Hitoshi Kobayashi Yukihiro Fujii Yasushi Ohara  
Kenji Kose